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INFO RUCPDOG/USDOC WASHDC
RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHIT/AMCONSUL ISTANBUL 1906
RUEHDA/AMCONSUL ADANA 1512
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UNCLAS SECTION 01 OF 02 ANKARA 000049

SIPDIS

USDOC FOR 4212/ITA/MAC/CPD/CRUSNAK
FCC FOR A THOMAS AND A WEINSCHENK

SIPDIS

E.O. 12958: N/A

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SUBJECT: TURKEY'S TELECOM SECTOR - VOIP AND OTHER REGULATION: SLOW
PROGRESS

REF: A) 06 State 202978

B) 06 Ankara 6055

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11. SUMMARY: While Turkey's Telecom sector achieved a critical milestone with privatization of Turk Telekom (TT) in early 2006, the six-year old regulatory body Telecom Authority (TK) is still struggling to gain competence and maintain its independence vis a vis still dominant TT and the Ministry of Transportation and Communication. Pending telecom legislation is aimed at bringing a patchwork of legislation under one umbrella and assuring consistency with EU legislation. In response to the ref A request for the status of VOIP (Voice over Internet Protocol) regulation, the TK told us imminent issuance of fixed telecom services licenses would provide a EU-consistent, over-arching, and technology-neutral approach. The TK is carefully studying worldwide experience with VOIP and other services and technologies and aims to maintain a hands-off approach. VOIP is currently used by long distance license holders, but it is not currently allowed to compete with TT on local service. The TK is planning a trip to visit the FCC in early 2007. End Summary.

VOIP as an Example of a New Budding Service

12. Ref A transmitted the U.S. VON Coalition comment to the USTR on compliance with Telecommunications Agreements (Section 1377) with respect to Turkey and USTR requests information on when VOIP regulations will be issued by the Council of Ministers.

13. The Telecom Authority (TK) gave a two-step response, noting that issuing regulations was under its authority. The Council of Ministers, however, approves license duration and fees and opines on major new developments like third generation GSM service (3G) and WiMAX. TK board member Galip Zerey told us that VOIP could be used by current long-distance license holders, but local competition with TT -- whether VOIP or otherwise -- is not yet allowed. However, competition with TT on calls from one city to another and calls to cellular operators exists. Zerey said the board was actively studying worldwide experiences with VOIP with an eye for quickly normalizing its use in Turkey. He noted that companies like Skype and Vonage freely operate to and from Turkey without restriction.

14. Secondly, the TK board member claimed that the issuance of fixed telecom service licenses is imminent. The text is prepared and would soon be published in the Official Gazette. The intent will be to establish an over-arching telecom environment and expand telecom

service to include local (TT continues to have a monopoly on local land lines, as opposed to long-distance where out of forty licenses, half are operating, but with some difficulty). VOIP could be employed, but the intent of the license was technology neutrality; i.e., specific technologies were not defined in the license. TK will also tender new licenses for telephone number portability. New regulations will also clarify interconnection (TT has long sought to take advantage of its dominance by making interconnection difficult or expensive), and would clarify legal interception by the GOT. The TK made a recommendation for fee structure still under consideration by the Minister.

The Brave New World - WiMAX, ADSL, cable

¶15. As in previous discussions with TK Board Members, Zerey stated that licensing for 3G GSM service, which will provide broadband services over cell phones, and WiMAX are key elements of the board's work plan, but timing is uncertain. The TK President and The Minister of Transport and Communications announced that the 3G tender will be held at the beginning of summer. Again, the board's intent is to license specific frequencies, but not to prescribe a specific technology. Zerey noted that the Minister would define the license duration and fee structure (likely viewing this as a revenue source for the GOT).

¶16. Zerey admitted that TT maintained dominance over provision of broadband ADSL Internet service. He noted that four infrastructure licenses had been granted, but there is still no activity or competition. There is limited resale and remarketing of ADSL from TT. In recent years TT has expanded provision of ADSL to 2.5 million subscribers at "reasonable" prices (approximately \$33 per month for unlimited 256 kbps service) to apparently meet demand, but penetration remains low. Zerey noted that despite the board's provision of four licenses for new cable infrastructure, the cable sector is troubled and inactive, because state company Turksat took new license holders to court. (The existing cable network was

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separated from TT prior to privatization and transferred to state-owned Turksat.)

¶17. The mobile sector continues to display modest competition and Turkcell remains dominant. Telsim, acquired by Vodafone last year, appears to be gearing up its investment and marketing, in cooperation with Motorola. The third operator Avea's shares were consolidated by TT when Telecom Italia sold its interests after becoming a shareholder of Turk Telekom. The competition is expected to increase after telephone number portability licenses are issued.

Comment and Proposed Visit to FCC

¶18. Turkey is still endeavoring to provide the level playing field envisioned by the recent privatization of Turk Telekom. Although TT has remained aggressive and dominant in the marketplace and the regulatory process, seeking to maintain its revenues against competitors, TT's main competitor has become GSM companies, in particular Turkcell, whose subscriber numbers and revenues now exceed those of Turk Telekom. The government maintains an important presence in the satellite communications market via its ownership of Turksat. The Telekom Board seeks to increase its expertise by gaining worldwide experience. After fruitful contact with the FCC at the November International Telecommunications Union meeting in Antalya, a regulator team is planning to visit Washington as soon as possible in 2007 to learn more from FCC experiences.

McEldowney